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1 (a) Name two types of tax. [2]

1 mark for each of the two types.

Accept: Two from progressive [1] proportional [1] regressive [1]

Or: Direct [1] indirect [1]

Or: Two specific types of taxes, e.g. income [1] sales: VAT [1] PST [1] or GST [1], corporation tax [1]

Note: a maximum of two marks overall.

(b) Using information from the extract, explain why the Bahamas would benefit from an increase in household incomes in the US. [2]

1 mark for: most tourists (80%) come from the USA.

1 mark for: tourism would increase/more visitors would come to the Bahamas/more will be spent on vacations in the Bahamas.

(c) Using information from the extract, draw a demand and supply diagram to show what is likely to have happened to the price of fish in 2012. [4]

1 mark for axes correctly labelled.

1 mark for demand and supply curves correctly labelled.

1 mark for supply curve shifted to the left.

1 mark for: correct equilibriums shown [both P and Q].

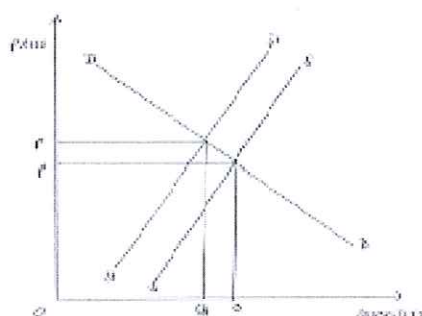


Figure 1(c)

NB If diagram shows wrong shift then max mark of 1
No explanation required.

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(d) Explain why an increase in a country's GDP is likely to reduce unemployment. [3]

1 mark for: the country's output/income/expenditure is increasing.

1 mark for: firms are likely to respond to higher output by increasing employment.

1 mark for: if employment increases, unemployment is likely to fall.

(e) Analyse whether the information in Table 1 supports the view that an increase in GDP reduces unemployment and a decrease in GDP raises unemployment. [4]

1 mark for most of the evidence supports the view.

1 mark for: in 2008 and 2009 real GDP falls and unemployment rises.

1 mark for: 2011 shows GDP increasing and unemployment falling.

1 mark for: 2010 is the exception – GDP increases but unemployment remains unchanged.

1 mark for noting the data may show nominal rather than real data.

Note: a maximum of 4 marks overall.

Note - the data refers to GDP growth rate - this is what should be used when deciding if an economy/GDP is increasing/decreasing.

Answers should also refer to the level of unemployment (as opposed to employment levels).

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(f) Discuss whether a fall in the birth rate will benefit an economy.

[5]

Up to 4 marks for why it might:

Up to 3 marks for: may reduce the dependency ratio [1] increase labour force in the short run [1] as fewer adults leave it to raise children [1].

Up to 3 marks for: reduce need for government spending [1], e.g. education and health [1] resources can be used for other purposes [1].

Up to 3 marks for: women are taking less time out to have children [1] focusing on work/careers [1] this will increase output/GDP.

Up to 2 marks for: less overcrowding [1] may raise living standards [1].

Up to 2 marks for: fewer school leavers/graduates in long run [1], therefore less unemployment [1].

Up to 2 marks for: the country may be overpopulated [1] so fewer scarce resources will now be used up [1].

Up to 2 marks for: less money is spent on (child) benefits [1] more can be spent on other things, e.g. education.

Up to 4 marks for why it might not:

Up to 3 marks for: may reduce demand [1] which may cause under use of resources [1] including unemployment [1].

Up to 3 marks for: the average age of the labour force will rise [1] it may become less mobile [1] less adaptable [1].

Up to 2 marks for: may reduce the size of the labour force in the long run [1] increase dependency ratio in the long run [1].

Up to 2 marks for: may lead to an ageing population in the long run [1] so proportionately more spent on health care/pensions [1].

Up to 2 marks for: businesses in the child care sector would suffer [1] causing loss of jobs for, e.g. nursery workers [1].

1 mark for: the effects will be experienced in the long run rather than the short run.

Maximum of 3 marks for a list-like response.

Note: a maximum of 5 marks overall.

** A lower birth rate does not mean that adults will have more disposable income*

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(g) Explain how the two supply-side policy measures mentioned in the extract may reduce unemployment. [4]

1 mark for each of two supply-side policy measures identified:

- privatisation/government selling Bahamas Telecommunications
- cut in unemployment benefit.

1 mark for each of two explanations:

- firms may be more efficient/there is more competition in the private sector, and so expand and increase employment
- a cut in unemployment benefit may increase the incentive for people to work – reduce voluntary unemployment.

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(h) Discuss whether the Bahamas should exploit any oil reserves it may find. [6]

Up to 4 marks for why it should:

Up to 3 marks for: increase GDP/output [1] which would increase employment [1] raise living standards [1].

Up to 3 marks for: oil production can be taxed [1] increase government revenue/reduce budget deficit [1] revenue can be spent on education/health care [1].

Up to 3 marks for: increase export revenue [1] because demand for oil is high worldwide [1] this may improve the current account position [1].

Up to 3 marks for: will diversify the economy/make it less specialised [1] oil is a less volatile industry than tourism [1] reduce risk of relying on tourism and financial services [1].

Up to 2 marks for: demand for oil may fall in the future [1] reserves may fall in the future [1].

Up to 2 marks for: the Bahamas will have their own source of fuel/not have to import [1] this will reduce costs for businesses [1].

Up to 2 marks for: oil should be exploited now whilst prices are high [1] in future the availability of alternative energy sources will drive oil prices down [1].

Up to 4 marks for why it should not:

Up to 4 marks for: may reduce tourism [1] which may reduce GDP/output [1] leading to unemployment [1] worsen current account position [1].

Up to 3 marks for: may damage the environment [1], e.g. may cause pollution [1], thus reducing tourism [1].

Up to 2 marks for: other industries could be developed [1], e.g. shipping/fishing [1].

Up to 2 marks for: demand for oil may be higher in the future [1] so revenue may be greater if reserves are conserved now [1].

Up to 2 marks for: oil is a non-renewable resource [1] so supply will eventually run out, causing structural problems for the economy [1].

Up to 2 marks for: oil exploration involves a large (opportunity) cost [1] that could be spent elsewhere, e.g. developing the fishing industry [1].

Maximum of 3 marks for a list-like response.

Note: a maximum of 6 marks overall.

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2 (a) Define 'opportunity cost'. [2]

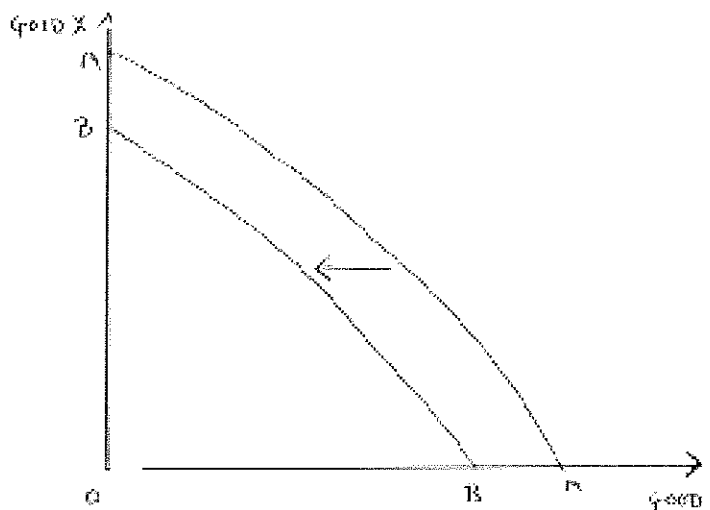
- (next) best alternative (1) forgone (1)

(b) Explain why the economic problem can never be solved. [4]

- the economic problem is scarcity (1)
- infinite wants (1) finite resources (1)
- wants exceed resources (1) as wants grow faster than resources/growth of resources will not exceed growth of wants (1)

(c) Using a production possibility curve diagram, analyse the effect of the destruction of some of its resources on an economy. [6]

Up to 4 marks for the diagram:



- axes correctly labelled (1)
- original curve/downward sloping line to axes (1)
- new curve present (1)
- shift to the left clearly indicated either by an arrow or by labelling (1)

Up to 2 marks for written explanation:

- the destruction of resources will reduce the maximum output a country can produce (1)
- this will move the production possibility curve to the left/closer to the origin (1)

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(d) Discuss whether a country will benefit from the emigration of some of its people. [8]

Up to 5 marks for why it might:

- emigration of dependents (1) would reduce the burden on the working population (1) reduce government spending on benefits/pensions (1) which means government spending on other items can increase (1)
- if there is overpopulation/population above the optimum level (1) output per head should rise/more efficient use can be made of resources (1)
- workers who emigrate may send money back to relatives (1) this may increase living standards (1)
- emigrants may later return to the country bringing new skills with them (1) this may raise the productivity of the labour force (1)

Up to 5 marks for why it might not:

- skilled workers may emigrate (1) this will reduce the quality of the labour force (1) lowering productivity (1) discouraging multinational companies setting up in the country (1)
- if people of working age emigrate (1) the dependency ratio will increase (1)
- if there is under-population/population below the optimum level (1) output per head would fall/less efficient use can be made of resources (1)
- with lower output less advantage can be taken of economies of scale (1)

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3 (a) Define 'equilibrium price'. [2]

- the price which equates demand and supply (2)
- market clearing price (1) which ensures no surplus or shortage (1)
- the price which will not change (1) unless market conditions change (1)

Note: award 2 marks if they show a correct diagram showing demand = supply

(b) Explain two reasons why borrowing may decrease. [4]

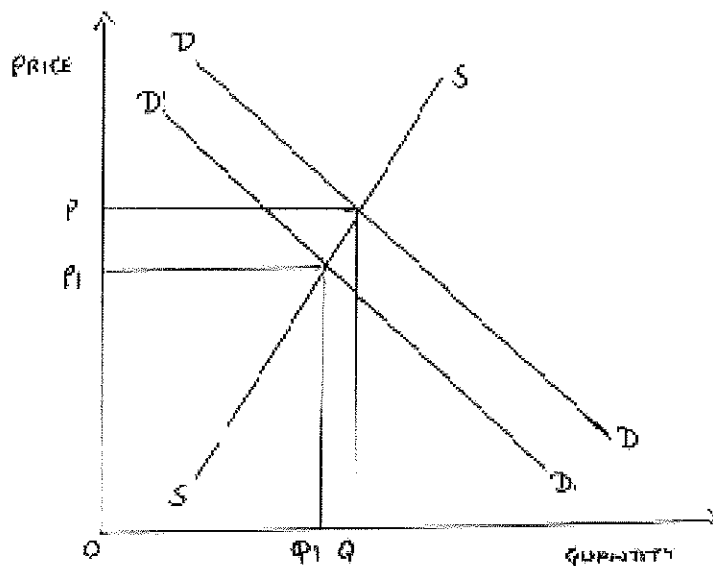
1 mark for identification and 1 mark for explanation:

- a rise in the rate of interest (1) will increase the cost of borrowing (1)
- a reduction in the availability of loans (1) will make it more difficult to borrow (1)
- a rise in income (1) may reduce the need to borrow (1)
- an increase in the state provision of health care/education (1) may mean that people do not have to borrow to cover health care/education expenses (1)
- a reduction in the price of expensive items e.g. houses, cars (1) may mean that people can buy the items without borrowing (1)
- a reduction in confidence about the future (1) may mean that people will be afraid they will not be able to repay loans (1)
- a change in age structure (1) the young may borrow more than those of middle age (1)
- a change in social attitudes (1) it may become less acceptable to borrow (1)
- an increase in government subsidies to firms (1) may reduce the need for firms to borrow from banks (1)

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- (c) Using a demand and supply diagram, analyse why a fall in incomes may reduce the market price of houses. [6]

Up to 4 marks for the diagram:



- axes accurately labelled (1)
- demand and supply curves accurately labelled (1)
- the shift of the demand curve to the left (1)
- original and new equilibriums indicated either by lines to the axes or equilibrium prices clearly highlighted (1)

Up to 2 marks for written analysis:

- a fall in income reduces purchasing power/ability to spend (1)
- due to lower demand, producers lower price (1)

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(d) Discuss whether the building of houses should be subsidised.

[8]

Up to 5 marks for why they should be:

- subsidising houses will provide an incentive to build houses (1) increase the supply of houses (1) reduce the price of houses (1) this may make it easier for the poor to buy houses (1) increase the quality of the lives of the poor (1)
- subsidising houses will increase economic activity (1) to produce more houses would require more labour (1) this would reduce unemployment (1)
- housing is a necessity (1) so building more houses may reduce poverty/homelessness (1)

Up to 5 marks for why they should not be:

- would involve an opportunity cost (1) government spending could be used on other areas e.g. education/health care (1)
- may generate external costs (1) for example, pollution and destruction of the natural environment (1)
- there may be no demand for extra houses (1) in this case there will be an oversupply of houses/inefficient use of resources (1)
- building firms may become reliant on subsidies (1) and this increase inefficiency (1)

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4. (a) Describe a possible opportunity cost of a student going to university. [2]

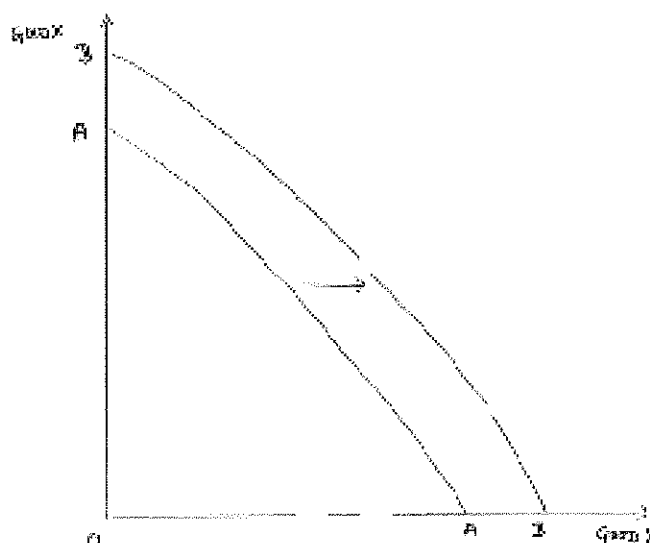
- opportunity cost is the (next) best alternative forgone (1)
- getting a job/earning a living/lower output in the short run (1)

(b) Explain why university graduates usually earn more than people who have not gone to university. [4]

- graduates are more likely to be skilled (1) this makes them more productive (1)
- graduates are likely to be more highly qualified (1)
- graduates are likely to be in higher demand (1) demand for services more inelastic (1)
- graduates are likely to be in shorter supply (1) supply more inelastic (1)
- graduates may belong to stronger professional bodies/trade unions (1) which have greater bargaining power (1)

(c) Using a production possibility curve diagram, analyse what effect an increase in the number of graduates will have on an economy. [6]

Up to 4 marks for the diagram:



- axes correctly labelled (1)
- original curve/downward sloping to the axes and touching the axes (1)
- new curve present (1)
- shift to the right indicated either by an arrow or labelling (1)

Up to 2 marks for the written analysis:

- more graduates will increase the skills/productivity of workers (1)
- with a higher quality of labour, a country will be capable of producing more/there will be economic growth (1)

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(d) Discuss whether graduates should pay the full cost of their university education. [8]

Up to 5 marks for why they should:

- graduates will learn new skills/gain qualifications (1) their employment opportunities are likely to increase (1) they are likely to earn a high wage (1) the private benefits of education are likely to be high (1)
- subsidising graduates involves an opportunity cost (1) requiring students to pay the full cost may enable more to be spent on, e.g. health care (1) government has limited finance (1)
- subsidising graduates may result in a budget deficit (1) or high taxes (1)
- charging the full cost may ensure prospective students consider the opportunity cost to themselves carefully (1)
- some graduates may come from relatively rich families (1) and so may not need to be helped (1)
- some graduates may emigrate (1) and so other countries may receive the benefit (1)

Up to 5 marks for why they should not:

- more educated labour force (1) leading to higher output (1) reduced unemployment (1) increased living standards (1) generating external benefits (1) increasing tax revenue in the long run (1)
- people from poor families may not be able to afford the cost (1) this could reduce the number of graduates (1) lowering potential output (1) increasing income inequality (1)
- there is an argument for the government paying part of the cost (1), e.g. based on the ability to pay (1)

3 (a) What is meant by an industry being ‘capital-intensive’? [2]

An industry which has a high amount of capital/machinery compared with the amount of other factors, e.g. labour employed (2)

An industry which uses a large amount of capital/uses capital instead of labour (1)

(b) Explain two reasons why the supply of a product may be price inelastic. [4]

- long production period (1) this will make it difficult to adjust supply quickly (1)
- inability to store the product (1) this means goods cannot be taken out of storage to meet higher demand (1)
- time period under consideration (1) supply is more inelastic in the short run (1)
- if there is a shortage of the raw material (1) it will be difficult to supply more in response to a rise in demand/price (1)

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5 (a) Define ‘private limited company’. [2]

- in the private sector (1)
- sells shares/is a joint stock company (1)
- the shares are not (usually) traded on a stock exchange (1) only sold to known individuals (1)
- has limited liability (1)
- the owners/shareholders vote for a board of directors (1)

(b) Explain two influences on what factors of production a firm uses. [4]

- the type of product produced/size of the firm (1) for instance, producing nuclear power is capital-intensive (1)
- the productivity of factors of production (1) if, for instance, labour becomes more skilled, a firm might become more labour-intensive (1)
- the availability of factors of production (1) in some countries there may be a shortage of oil or people of working age (1)
- the relative cost of factors of production (1) if capital is relatively expensive, labour-intensive methods of production may be used (1)

(c) Analyse how an increase in the size of a firm can increase its profit. [6]

- the increase in size may have resulted from the firm selling more products/increasing output (1) if revenue rises by more than costs, profit will increase (1)
- a larger firm may be able to take greater advantage of economies of scale (1)
- fall in average costs (1) e.g. buying, managerial, technical, risk bearing (2)
- a firm may have grown in size by merging/taking over rival firms (1) this will give it greater market power (1) allowing it to push up price (1)

Note: a maximum of 4 marks for only discussing economies of scale.

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(d) Discuss whether an economy would benefit from a foreign producer setting up in the country. [8]

Up to 5 marks for why it might:

- increase GDP (1) raise living standards (1)
- create new jobs (1) lower unemployment (1) less spent on benefits (1)
- pay higher than local wages (1)
- bring new knowledge and skills (1) boosting productivity (1)
- pay (corporation) taxes (1) increasing government revenue (1)
- increased (inward) investment (1)
- creates competition for domestic firms (1) making them cut costs/become more efficient (1)
- contribute to the country's exports (1) improve the current account position (1)
- sell more cheaply in the country (1) as lower transport costs (1)
- country benefits from improved infrastructure (e.g. roads) built by foreign producer (1)
- creates demand for products of local firms e.g. components (1)

Up to 5 marks for why it might not:

- may drive local producers out of business (1) so not adding to GDP, employment, etc. (1)
- may create external costs (1) e.g. pollution (1) may set up in the country to get round regulations at home (1)
- top jobs may be taken by workers from the MNC's home country (1) jobs created for locals may be unskilled (1)
- profits earned from the firm may be sent home (1) so not benefiting the home economy (1)
- it may have powerful influence on the government (1) reducing budget revenues by demanding tax relief/subsidies (1)

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6 (a) Define ‘horizontal integration’. [2]

A merger/takeover between firms (1) producing the same product at the same stage of production. (1)

(b) Explain two characteristics of perfect competition. [4]

- many buyers and sellers (1) so no one buyer or seller can influence price (1)
- no barriers to entry and exit (1) so any new firm can start producing the product/nothing which makes it difficult for a firm not currently making the product from starting to make it/no restrictions on firms in the industry stopping producing the products (1)
- firms are price takers (1) their supply is such a tiny proportion of total supply that changes in it will have no effect on price (1)
- homogeneous product/all the products are the same (1) so the products of different producers are perfect substitutes for each other (1)
- perfect information (1) buyers and sellers are fully aware of price and profits earned in the market (1)

(c) Analyse how two supply-side policy measures could improve the performance of an airline industry. [6]

Up to 4 marks for any one policy measure analysed:

- privatisation (1) may introduce competition (1) increase profit incentive (1) encourage firms to be efficient/reduce costs (1)
- cut in corporation tax/tax incentives given (1) increase funds available for investment (1) improve technology (1) raise productivity (1) lower costs of production (1)
- Improved education and training (1) raise skills of workers (1) increasing productivity (1) lower costs of production (1)
- cut in income tax (1) increase the motivation of workers (1) raise productivity (1) lower costs of production (1)
- deregulation (1) removing laws and rules may reduce firms' costs (1) enabling them to invest more (1)
- subsidies (1) may encourage firms to invest in advanced technology, engage in research and development and/or train workers (1) lower costs of production/increase productive capacity (1)

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(d) Discuss whether price is likely to be higher in a monopoly than in a perfectly competitive market.

[8]

Up to 5 marks for why it might:

- lack of competition (1) gives a monopoly market power (1) if profit maximisers (1) may push up price (1) by restricting supply (1)
- lack of consumer choice/consumers can switch to rival producers in a perfectly competitive market (1) an increase in demand raises price (1) which will encourage new firms to enter the industry (1) reducing price (1)
- demand is often inelastic, e.g. water (1) increased demand raises price by greater proportion (1)
- a monopoly may be experiencing diseconomies of scale (1) example of diseconomies of scale (1) this will raise average costs of production (1)

Up to 5 marks for why it might not:

- a monopoly may be able to take advantage of economies of scale (1) example of economies of scale (1) with lower average costs, price may be lower (1) whilst still enabling a monopoly to enjoy high profits (1)
- with high profits, a monopoly may be able to spend more on research and development/new technology (1) this can reduce costs of production (1) enabling a monopoly to charge a lower price (1)
- a monopoly may be state-owned (1) it may choose to charge a low price to ensure everyone can afford it (1)
- private sector monopolies may not be profit maximisers (1) they may charge a lower price (1) in order to grow the business (1)
- monopolies may still face overseas competition (1) keeping prices down (1)

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7 (a) Define 'inflation'. [2]

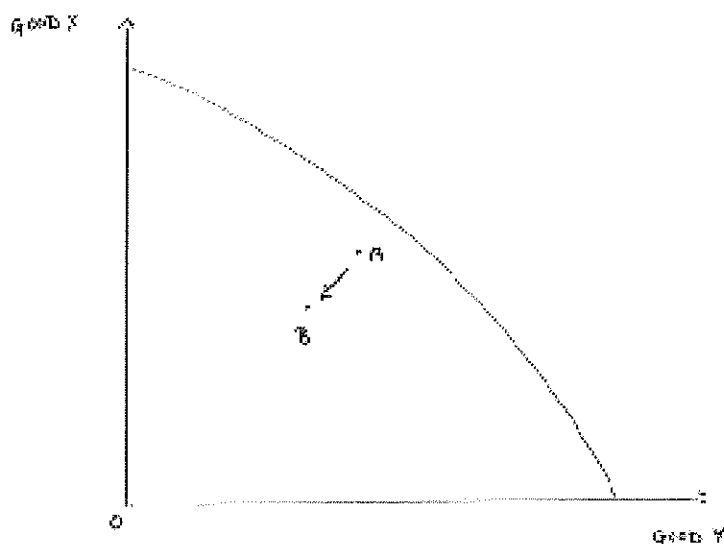
A sustained /over time (1) rise in the price level (prices). (1)

(b) Explain why government spending on unemployment benefits involves an opportunity cost. [4]

- opportunity cost is the (next) best alternative (1) forgone. (1)
- spending on unemployment benefit will reduce a government's ability to spend on another item/the tax revenue used to spend on unemployment benefit cannot be spent on another item (1) for instance, health care (1)

(c) Using a production possibility curve diagram, analyse the effect of an increase in unemployment on a country's output. [6]

Up to 4 marks for the diagram:



- axes correctly labelled (1)
- original curve/downward sloping line to axes (1)
- production point moved nearer to the origin (1)
- direction of change in the production point indicated (1)

Up to 2 marks for written explanation:

- unemployment means resources are unused / the economy is not at full capacity (1)
- with unemployed resources, a country will be producing further inside/moving inside its production possibility curve (1)

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(d) Discuss whether a rise in unemployment will cause a fall in inflation.

[8]

Up to 5 marks for why it might:

- a rise in unemployment will reduce incomes (1) with lower incomes, people will spend less (1) lower demand will reduce demand-pull inflation (1)
- with a rise in unemployment workers are easily replaced/there is now a large pool of workers (1) the increased supply of labour (1) will force down wage rates (1)
- a rise in unemployment may discourage workers from asking for wage rises (1) weaken the power of trade unions (1) lower wage rises will mean that firms' costs of production will increase more slowly (1) this may reduce cost-push inflation (1)

Up to 5 marks for why it might not:

- demand may still rise despite an increase in unemployment (1) government spending or exports may be increasing (1)
- a rise in unemployment reduces national output (AS) (1) increasing inflationary pressures (1)
- other costs of production could be rising (1) for instance, raw material costs (1) for instance, a fall in the exchange rate may increase the price of imported raw materials (1)
- a rise in unemployment could mean fewer skilled workers (1) this lowers productivity (1) causing average costs to rise for firms (1)
- trade unions may still press for wage rises despite an increase in unemployment (1)
- inflation can lead to people expecting prices to rise faster in the future (1) this can lead them to act in ways that cause inflation (1) they may buy more products now (1) ask for wage rises (1)
- people may receive an income in unemployment benefits (1) and still spend the same amount as before